

BUSINESS CONDITIONS

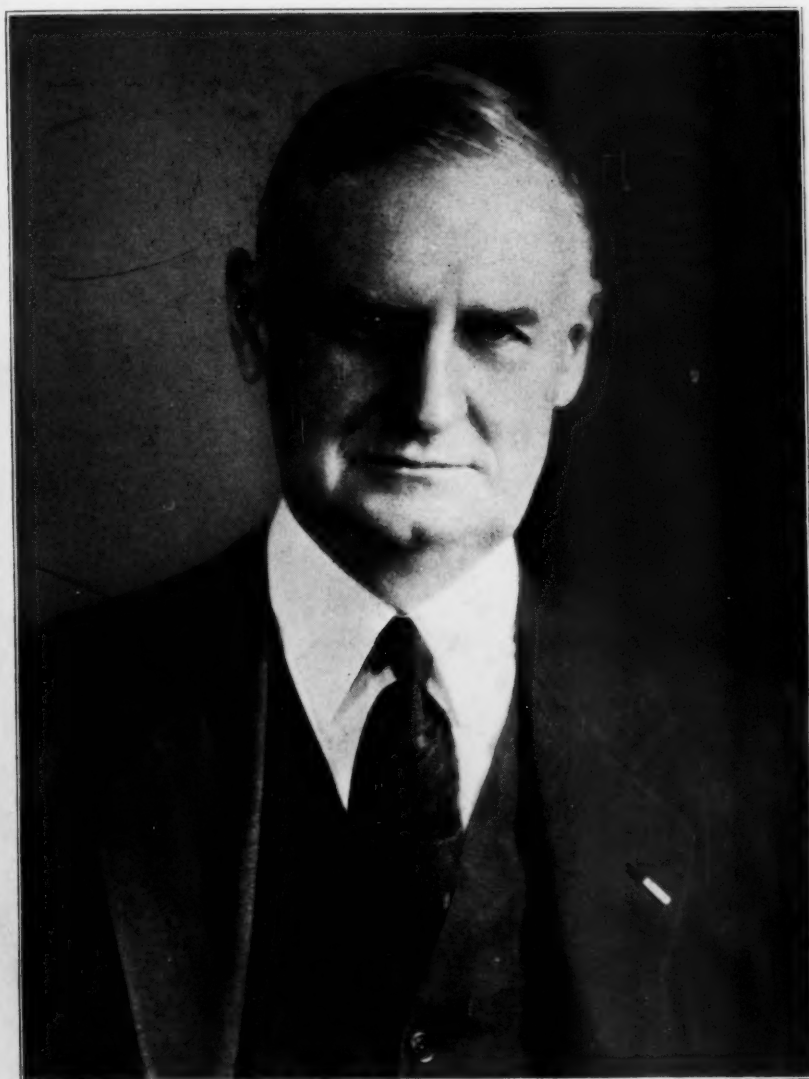
A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

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CHAIRMAN OF THE BOARD

THIS MONTH

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National Summary

Robert E. Wood, Chairman of the Board

Distinguished by the execution of big jobs since he was assigned to help build the Panama Canal in 1905, General Robert E. Wood begins his fifth year as a director of the Federal Reserve Bank of Chicago on July 17.

Chairman of the Board since January 1, 1940, General Wood was designated Deputy Chairman on the same day that the Board of Governors of the Federal Reserve System in Washington appointed him a director. His present term expires in 1941.

General Wood was born in Kansas City, Missouri, June 13, 1879, and after the usual preliminary education, he entered the United States Military Academy at West Point. Graduated in 1900, he was commissioned a second lieutenant and assigned to the Seventh Cavalry.

Almost immediately the young lieutenant received the sort of action which he had long craved. His regiment was in the Philippines and for the next two years he fought in jungle and on hill in pursuit of Aguinaldo's insurrectos. Then followed a year of uneventful barracks life at Fort Assiniboine, Montana, and two years as a faculty member at West Point where he taught foreign languages to the cadets.

Ordered to the Panama Canal Zone where General Goethals had undertaken the task of constructing the "big ditch," the young officer made a reputation for himself by his passion for work and the successful completion of many important assignments. This brought him appointment as chief quartermaster, a job on which he was obliged to hire thousands of men, and order and distribute millions of dollars worth of supplies. He also supervised building construction in the area.

In May 1915, General Wood resigned from the Army with the rank of major. He then became assistant to the vice president of the E. I. DuPont de Nemours Company, a position which he gave up in a few months' time to take charge of the United States, Venezuela and Trinidad operations of the General Asphalt Company. However, when Congress declared war in 1917 he immediately offered his services to the War Department. His offer was promptly accepted and he was put to work organizing the purchasing department of the Emergency Fleet Corporation. When this task was completed he was appointed colonel of infantry and sent overseas with the Rainbow Division. On his arrival in France he was made a member of the General Staff and placed in charge of the Army transport service.

After the War Department had established a centralized set-up for the buying and distribution of army supplies, General Wood was ordered home from France to assume the duties of Acting Quartermaster General. At the same time he was commissioned brigadier general.

General Wood returned to civil life in March 1919 after having been awarded a distinguished service medal by the United States Government. He was also decorated by the British. For the next four years he was general merchandise manager and vice president of Montgomery Ward and Company. In November 1924, he joined Sears, Roebuck and Company as vice president in charge of all retail store and factory operations. Following the death of Charles M. Kittle in January 1928, he was elected to the presidency of the company. Upon the retirement of Lessing J. Rosenwald in January of 1939, General Wood became board chairman.

General Wood is also a director of the Illinois Central railway, the United Fruit Company, and the National Life Insurance Company.

District Summary of Business Conditions

THE declines in Seventh district industrial activity evident in the first two months of the year have, to a considerable extent, been halted. Steel and automobile production have held fairly steady through April, the latter major industry at a relatively high level. District industrial employment showed fractional gains in March and distribution of commodities at retail has continued in good volume. The marked April advance in the general level of district farm products prices has considerably augmented the potential purchasing power of farmers in the Seventh Federal Reserve district.

Industry—Following declining trends during January and February in district industrial employment and payrolls, fractional percentage gains were shown over the February-to-March reporting period. Industrial payrolls in March were down only 6 per cent from the recent December high and were 16 per cent greater than wage payments in the month last year.

The steel operating rate in the Chicago district has shown only minor fluctuations, holding not far from 60 per cent of capacity since mid-February. Following the price cut in sheets and strip—important items in district steel output—there was some increase in new business but no such heavy tonnages as were booked during the period of price reductions last May. Although order backlogs at steel mills are by now greatly reduced, incoming business has improved gradually since early in the year. Activity at steel and malleable castings plants in the district declined further in March and that at malleable castings foundries was at a level lower than last year. Shipments of stoves and furnaces by district manufacturers have continued recent gains, but new business has risen less than seasonally.

Automobile production has been a major sustaining factor in district industrial activity this spring. Though not increasing as much as is usually expected in March and in April, automobile output has held steady at a high level. District automobile sales continued excellent and by the end of March, new-car stocks were somewhat reduced, although stocks of used cars were up considerably.

With little change in the rate of incoming business, district furniture manufacturers maintained their production schedules at around 75 per cent of capacity through March, and shipments increased less than usually during the period. Paper production at district mills held steady. Petroleum refinery operations continued at a high level, and stocks of gasoline in April remained heavy.

Reflecting chiefly substantially increased awards for residential building, there was a rise of about one third in contracts awarded for construction work during March. Because of a smaller volume of publicly-financed non-residential projects, construction contracts in the first quarter of 1940 were 15 per cent lower than in 1939.

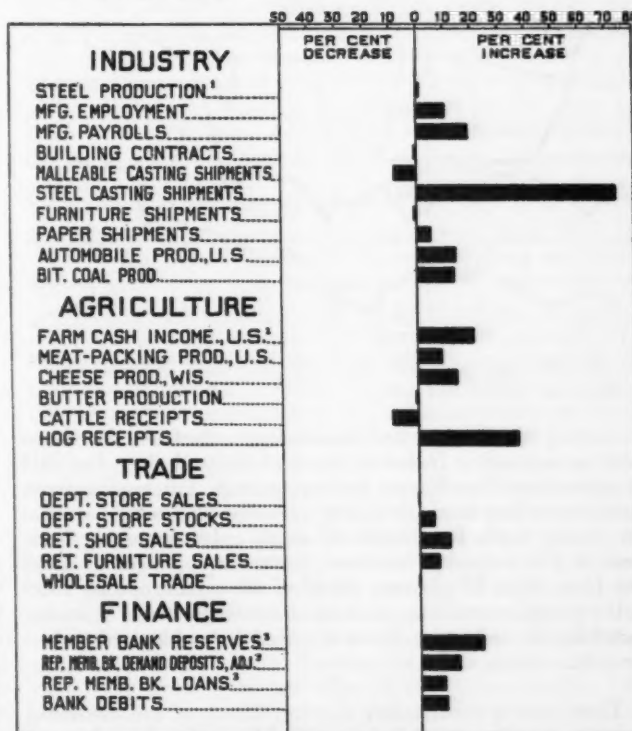
Merchandising—On a daily average basis, district department store sales during March were 2 per cent higher than in the same month of 1939. Data for the larger district stores indicate that sales in the first half of April also recorded a small increase over last year's level. Sales of women's apparel and accessories at department stores were down about 3 per cent in March from a year ago. Retail shoe sales increased more than is usual for March and were 11 per cent above the corresponding 1939 month, while retail distribu-

tion of furniture and housefurnishings showed further expansion and was about 7 per cent greater than the year-earlier level. Trends in wholesale trade were generally unfavorable, sales of district wholesale houses increasing much less than is customary for March and totaling below a year-ago for the first time in fifteen months. Department store stocks, as well as those of shoes and furniture stores, were about 4 to 5 per cent heavier than in 1939 at the end of March; stocks of wholesale merchandise were 10 per cent greater in this comparison.

Agriculture—Since the first week of April, there has been a marked improvement in prices of many major district farm products. An increase of over one dollar per hundred-weight in hog prices has brought the end, for the time being at least, of the five-dollar hog in Chicago. Prices of principal grains, as well as of meat products, are also up substantially. The month of March saw a better balance between production and sales of packing-house commodities, although the former continued at unusually high levels. Production of dairy products has increased and prices have shown seasonal weakness.

Finance—Seventh district reporting member banks expanded their loans by 28 million dollars in the four weeks ended April 17. This higher loan volume chiefly reflected increases at many banks in loans of the commercial, industrial, and agricultural category. There was some easing in bond prices following the invasion of Norway.

SEVENTH DISTRICT BUSINESS ACTIVITY MARCH 1940 COMPARED WITH MARCH 1939

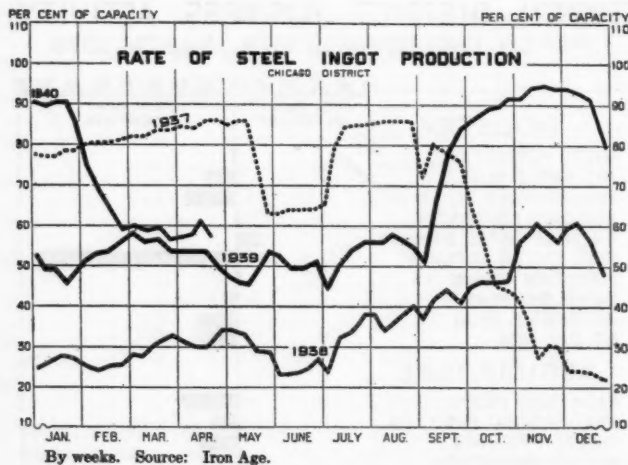


1. Ingot rate, Chicago district, for week ending April 27. 2. February data.
3. As of April 17.

Industrial Activity

Steel and Steel Products—Of principal interest in the steel industry of this as well as other districts has been the reduction of \$4 per ton on hot and cold rolled sheets, as announced on April 12 by the United States Steel Corporation subsidiary in Chicago; it was made for the purpose of meeting competition and presumably was to prevail through the second quarter of 1940. This announcement was followed by similar reductions at other companies and on other allied products such as hot and cold rolled strip steel and enameling sheets. The fact that the lowering of prices affected items used chiefly by the automobile industry in making car fenders, bodies, and tops, brought about an increase in buying from this industry subsequent to the action. However, no great amount of tonnage was booked such as followed the sharp price cuts last May. Automobile specifications have been tapering off of late, and additional purchases for the most part have been of a hand-to-mouth nature.

Steel mills in recent weeks have experienced a gradual expansion in demand from diversified sources. Incoming business now ranges from 50 to 60 per cent of capacity compared with around 40 per cent several weeks earlier. There has been some export business, chiefly in alloy steels, although the major portion of it is being shipped from other districts. Further foreign orders are pending, but await more satisfactory foreign exchange or financial arrangements. Steel backlogs in the Chicago district have practically disappeared. Mills in the last full week of April were operating at an average rate of 57 per cent of capacity, little changed from a month earlier.



Among the major steel-consuming industries that have been a supporting factor in the steel demand since last fall is agricultural machinery and equipment; but buying from this source has been declining recently and purchases are now being made for immediate needs only. Incoming business of this industry, however, in the first quarter of 1940 ran from 10 to 15 per cent ahead of the corresponding 1939 volume, and a continuance of this increased activity is anticipated by the industry. There are sizable backlogs of orders on certain items.

There was a continuance during March of the declining trend in activity at steel and malleable casting foundries of the district, as incoming business, shipments, and production fell off considerably from the February volumes. Fur-

thermore, orders booked for steel castings were under the year-earlier level for the first time since the fall of 1938, while shipments and production of malleable castings, as well as new business, were smaller in the comparison. Much heavier output than new orders continued to reduce backlogs through March.

STEEL AND MALLEABLE CASTINGS SEVENTH DISTRICT

	March 1940 Per Cent Change from	Mar. 1939
Steel Castings:		
Orders booked (tons).....	-26.4	-26.2
Orders booked (dollars).....	-20.7	-22.9
Shipments (tons).....	-25.2	+74.3
Shipments (dollars).....	-19.5	+57.7
Production (tons).....	-23.0	+73.1
Malleable Castings:		
Orders booked (tons).....	-15.9	-20.2
Orders booked (dollars).....	-16.1	-18.7
Shipments (tons).....	-14.4	-8.5
Shipments (dollars).....	-11.7	-3.9
Production (tons).....	-9.8	-3.2

Shipments of reporting Seventh district stove and furnace manufacturers recorded a further moderate expansion in March. Though only 5 per cent heavier than in March last year, for the entire first quarter of 1940 they exceeded the same 1939 period by one fifth. New business booked during March increased much less than is usual over the preceding month and totaled slightly less than in the corresponding 1939 period. March manufacturing operations were little changed from a month previous.

Automobiles—Because the maintenance of heavy production schedules through January and February had built up dealer inventories to a relatively high level, March output of automobiles this year did not record so great an expansion as is usual over the preceding month. However, it moderately exceeded that of the month last year, when a sharp rise had occurred over the period, and entire first-quarter production of motor vehicles in the United States was the second highest on record. March data indicate assemblies of 352,473 passenger cars and 70,826 trucks, or $4\frac{1}{2}$ and 7 per cent more, respectively, than a month previous; as compared with last March, these figures represent an increase of 18 per cent in passenger car output and a decrease of 2 per cent in truck production. First-quarter manufacture of automobiles numbered 1,052,581 passenger cars and 206,446 trucks; the former was exceeded by the same 1929 period alone and the latter by the first quarters of 1936 and 1937 as well.

Somewhat more favorable weather in the last third of March in certain areas of the country considerably accelerated retail automobile sales and, as sales continued good into April, some reduction in field stocks resulted. Production, therefore, was held at a steady level through the first three weeks of April.

An excellent demand for new automobiles continued during March in the Seventh district. Following a nonseasonal increase in February, retail sales of new cars by reporting dealers rose further in the current period by more than 75 per cent and exceeded by one fourth those of March last year, when an unusual expansion had been shown. The heavy sales reduced stocks slightly and at the end of March new-car inventories were still a little lighter than a year earlier. Although sales of used cars in March numbered substantially greater than in February, they only a little more than equaled those in the same 1939 month, and stocks of such cars in dealers' hands were enlarged 15 per cent over the period and totaled one fifth higher than a year ago.

Building—Bolstered by a sharp advance in residential building, contracts awarded during March for construction work in the Seventh Federal Reserve district increased by about one third over February. Of the 43½ million dollars in March awards, almost one half represented residential projects, of which over 90 per cent were for one- and two-family dwellings. While there has been a definite increase over last year in one- and two-family home construction, other residential contracts have been lower. Total building contracts in the first quarter were 15 per cent less than in the 1939 period, reflecting mainly smaller amounts of Government funds expended in construction projects.

BUILDING CONTRACTS AWARDED SEVENTH FEDERAL RESERVE DISTRICT

Period	Total Contracts	Residential Contracts
March 1940.....	\$43,646,000	\$19,753,000
Change from February 1940.....	+34.7%	+72.8%
Change from March 1939.....	- 0.9%	+ 0.2%
First three months of 1940.....	\$100,429,000	\$40,216,000
Change from same period in 1939.....	-15.1%	- 0.6%

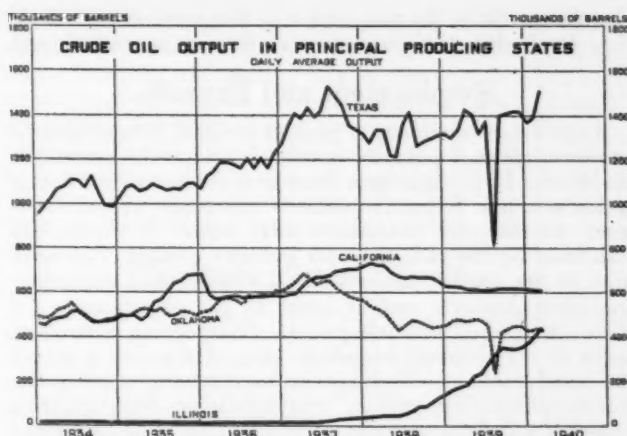
Data furnished by F. W. Dodge Corporation.

Permits for construction work issued in 102 cities of the district also reflected increasing activity during March, the gains over February amounting to 52 per cent in number and 12 per cent in estimated cost of contemplated projects. There was a moderate decline from a year ago, the number of permits totaling 6 per cent and their estimated cost 15 per cent smaller in this comparison.

Coal Production—Daily average production of soft coal in this general area rose somewhat, on a seasonally adjusted basis, during March over February, in contrast to a decline for the country as a whole, computed on the same basis. In both cases, the unadjusted data registered declines of about 16 per cent, but output of Midwestern coal, used primarily for heating purposes, generally recedes more sharply than does the national output, which is bolstered by the more stable industrial demand. The average amount mined daily in this area was about 13 per cent higher than in March 1939, which represents the widest margin of gain over the previous year's level since last October. The current showing for the Midwestern area is additionally favorable in that the coal industry was occupied a year ago with building up inventories in anticipation of impending labor difficulties.

Petroleum Refining—In the past three years, the crude petroleum output of Illinois oil fields has increased nearly thirteenfold. From about 7 million barrels in 1937, production in this State rose to 24 millions in 1938 and to 94 millions in 1939. Although prices of Illinois crude have shown a generally declining tendency over this period, the increase in dollar value of the Illinois crude oil output has been only slightly less than that in volume, expanding from roughly \$10,000,000 for the 1937 output to almost \$100,000,000 for 1939. In the first quarter of the current year, production was about 2½ times as large as in the same 1939 period. In early 1937, Illinois output was exceeded by that of thirteen other States; preliminary data for March 1940 show that the number of barrels produced in Illinois was exceeded only in Texas and California, having in that month surpassed Oklahoma's output for the first time, with the exception of last August when production was temporarily curtailed in the southwestern fields.

Three years ago the value of Illinois oil production placed this industry in the ranks of the many relatively small



By months, January 1934 through March 1940. Source: Bureau of Mines.

though important Illinois industries, such as wallpaper or baking powder. 1939 totals indicate that crude oil production now rates as one of the major Illinois industries. Value of 1939 output was almost one half as great as that of the Illinois corn crop for the year.

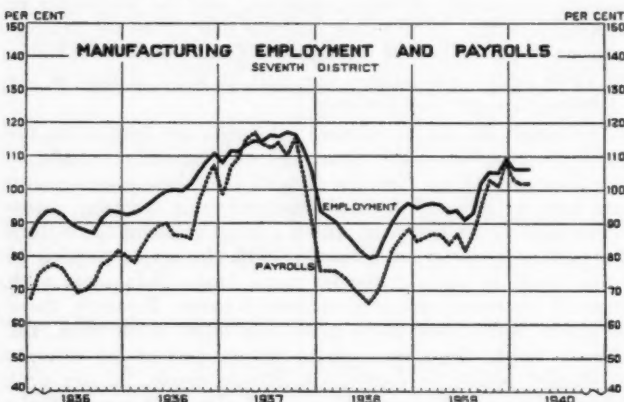
Although the major Illinois oil fields are located in the southern portion of the State and consequently outside of the Seventh Federal Reserve district, their heavy production has been a factor of decided importance to the huge petroleum refining industry, of which a large segment lies within the district boundaries. Prior to 1939, the major portion of crude used in these refineries came from Oklahoma, with most of the remainder coming from Kansas. Recently, these refineries have been using more and more crude from the Illinois fields. Last year, about 40 per cent of the receipts at district refineries comprised Illinois crude, 36 per cent Oklahoma, and 16 per cent Kansas oil. The rest came largely from Texas and New Mexico. Activity at refineries in the Indiana-Illinois-Kentucky area (over 90 per cent in Illinois and Indiana), as reported by Bureau of Mines' data for crude runs to refinery stills, showed little change between 1937 and 1938, but rose 17 per cent during 1939. Accompanying the above was a gain of approximately 7 per cent in district gasoline consumption in 1939 over 1938, following practically no change in the latter year from 1937. In the first quarter of 1940, crude runs totaled about one fourth higher than a year previous.

While an exact measure of the local volume of heating and fuel oil consumption is unavailable, it is generally conceded to have increased at a somewhat faster pace of late than that of gasoline. Within rather narrow limits, the relative amounts of gasoline and fuel oils obtainable per barrel of crude are fixed. An increase in output of the one necessitates larger output of the joint product, regardless of prospective demand. The natural consequence of an extra-heavy seasonal demand for fuel oil has been an increase in refinery stocks of gasoline, which on March 30 were about one quarter higher than a year previous. The expansion in these inventories during the past few months of seasonally low gasoline consumption has been larger percentagewise than is usually witnessed during the winter season, leaving them at an all-time high level. Inventories of fuel oil on the same date were slightly higher than on the corresponding 1939 date, though about 40 per cent below their record seasonal peak established in the summer of 1938. A heavy volume of crude runs to stills has kept refinery stocks of these fuel oils from registering their customary large reduction dur-

ing the months of the past winter, as they were at a relatively low level when the heavy consumption season commenced.

Employment and Payrolls

Following two months of general declines, Seventh district employment and payrolls remained practically unchanged in March. In the aggregate there were fractional percentage gains over the February-to-March reporting period. However, considerable differences were noted in fluctuations exhibited by the various major industry groups. The addition to the number of workers in vehicles and stone-clay-and-glass products was as great as the reduction in the metals and wood products groups. Sharp gains in employment of the chemical industries effected a minor gain for the nondurable goods industries as a whole. Among the non-manufacturing groups, merchandising establishments recorded a definite seasonal increase which somewhat more than offset the losses in coal mining and construction employment and payrolls.



Index numbers adjusted to Census of Manufactures through 1937. 1923-1925 average = 100.

So far this year, employment and wage payments in industrial plants have failed to show the usual spring ex-

pansion, but declines from the December peaks also have not been nearly so sharp as those which took place between December and March in some of the major business indexes for the country as a whole. All Seventh district industries recorded a net decline of only 4½ per cent in employment and 6 per cent in payrolls from December to March. Furthermore, comparisons with year-earlier levels have continued very favorable. In March, employment was 9 per cent higher than a year earlier, while wage payments showed a year-to-year gain of 16 per cent.

Merchandising Trends

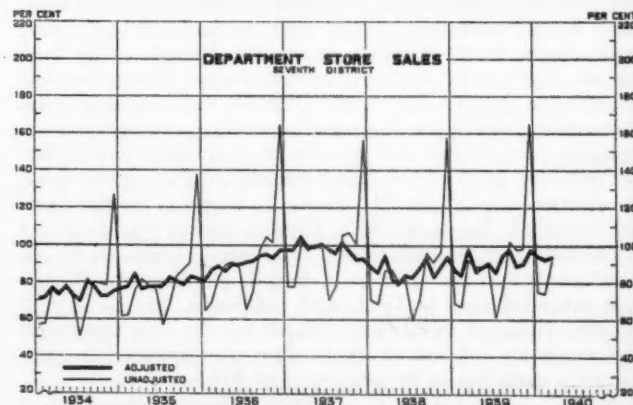
Department Store Trade—The earlier date of Easter this year than in 1939, as well as a difference in the number of trading days, caused Seventh district department store sales in the aggregate to show a slight decline in March from a year earlier. Whereas in the final week of March last year Easter holiday buying was nearing a peak, this year sales fell off in the period, and although there were five Saturdays in the 1940 month, there was one less weekly trading day. Daily average sales for the current month, owing to this latter factor, exceeded those of a year ago by 2 per cent. It will be noted in the table that experiences differed among the larger cities in sales volume comparisons with last March.

DEPARTMENT STORE TRADE IN MARCH 1940

Locality	Per Cent Change March 1940 from March 1939		Per Cent Change First Three Months 1940 from Same Period 1939	Ratio of March Collections to Accounts Outstanding End of February	
	Net Sales	Stocks End of Month		1940	1939
Chicago.....	- 3.8	+ 2.2	+ 6.0	44.3	44.3
Detroit.....	+ 2.9	+ 5.0	+ 8.8	45.3	45.2
Fort Wayne.....	+12.1	+12.9
Indianapolis.....	+10.0	+ 7.3
Milwaukee.....	- 0.5	- 2.3	+ 4.7	41.2	44.3
Other Cities*.....	+ 5.0	+10.1	+ 6.8	35.7	35.8
7th District.....	- 0.1	+ 4.5	+ 6.6	42.5	42.6

*Include Fort Wayne.

Of interest at the Easter season are sales of women's apparel and accessories. Those of department stores in the area during March 1940 totaled 3 per cent under the month a year ago. Glove sales were up almost 18 per cent, and increases were reported of 10 per cent in juniors' and girls'



Indexes of department store sales, with and without adjustment for seasonal variation, 1923-1925 average = 100. By months, January 1934 through March 1940.

EMPLOYMENT AND EARNINGS—SEVENTH FEDERAL RESERVE DISTRICT

Industrial Group	Week of March 15, 1940			Change from February 15, 1940	
	Report- ing Firms No.	Wage Earn- ers No.	Earn- ings (000 Omitted) \$	Wage Earn- ers %	Earn- ings %
DURABLE GOODS:					
Metals and Products¹.....	1,739	443,635	13,029	- 1.2	- 1.8
Vehicles.....	399	370,749	13,118	+ 1.1	+ 2.2
Stone, Clay, and Glass.....	277	17,988	427	+ 4.0	+ 3.9
Wood Products.....	466	47,195	1,015	- 0.9	- 1.1
Total.....	2,881	879,567	27,589	+ 0.1	+ 0.1
NON-DURABLE GOODS:					
Textiles and Products.....	386	66,285	1,309	- 0.4	+ 1.4
Food and Products.....	1,034	103,095	2,706	- 0.1	- 0.2
Chemical Products.....	300	42,155	1,177	+11.4	+ 1.7
Leather Products.....	173	26,774	555	- 1.4	- 3.4
Rubber Products.....	33	18,365	501	- 0.6	+ 2.3
Paper and Printing.....	709	75,914	2,171	- 1.8	- 1.3
Total.....	2,635	332,591	8,422	+ 0.6	- 0.1
Total Mfg., 10 Groups.....	5,516	1,212,158	36,011	+ 0.2	+ 0.1
Merchandising.....	5,366	140,037	3,108	+ 2.8	+ 2.5
Public Utilities.....	1,116	91,047	2,994	- 0.0	+ 0.1
Coal Mining.....	49	8,923	227	- 5.0	-19.6
Construction.....	737	8,449	260	- 6.7	- 1.1
Total Non-Mfg., 4 Groups.....	7,268	248,456	6,589	+ 1.1	+ 0.3
Total, 14 Groups.....	12,784	1,460,614	42,600	+ 0.4	+ 0.1

¹Other than vehicles.

Data furnished by State agencies of Illinois, Indiana, Michigan, and Wisconsin.

wear, 6 per cent each in women's and misses' dresses and shoes, and 4 per cent in millinery; but the dollar volumes of sports apparel and women's and misses' coats sold were off by 11 and 21 per cent, respectively. The latter declines brought about the decrease in total sales of these items.

In the first two weeks of April aggregate sales of the larger stores in the district recorded a small increase over the same 1939 period, principally owing to a gain of 12 per cent in the second week. The latter reflected a falling-off in sales during the same week a year earlier, following the end of the Easter buying period, and special promotional sales in the 1940 week that were held at a different time a year ago.

Retail Shoes—Sales of shoes at retail rose considerably more than seasonally this March, totaling almost double those of February and exceeding March sales last year by 11 per cent. Dealer sales recorded larger increases than did those of department stores. In the first quarter of 1940, the retail shoe trade of the district bettered that of the same 1939 period by 8 per cent. Retail shoe inventories expanded only 2 per cent from the close of February through March, and at the end of the latter month were but 5 per cent heavier than a year earlier, whereas on February 29 they had been 11 per cent above the corresponding 1939 date.

Retail Furniture—Although dealer sales of furniture and housefurnishings increased 15 per cent in March over February, the dollar volume of furniture sold by department stores in the Seventh district declined slightly in the aggregate for the period, so that total sales by both dealers and department stores rose only 3 per cent in March over a month previous. As compared with last March, district sales of furniture and housefurnishings were 7 per cent heavier in the month this year. Stocks were enlarged 7 per cent between February 29 and the close of March, and were at a level 4 per cent higher than that of a year ago.

SALES OF INDEPENDENT RETAIL STORES

(As compiled by the Bureau of the Census)

Per Cent Change March 1940 from
March 1939

	Illinois	Indiana	Iowa	Michigan	Wisconsin
Total All Groups*	+7.6	+6.8	+1.4	+5.3	+1.2
Apparel Group	+14.4	+10.7	+8.8	+2.1	+4.4
Drug Stores	+5.7	+4.8	+1.5	+3.1	+0.6
Food Group	+2.8	+0.7	+0.6	+2.5	+1.0
Furniture and Appliances	+11.2	+10.2	+9.5	+15.9	+21.2
Hardware Stores	-3.5	-3.0	-16.5	+7.5	-1.9
Jewelry Stores	+22.9	+22.8	+13.7	+11.0	+17.0
Lumber and Building Materials	-0.1	-0.7	-17.8	-5.1	-5.1
Motor Vehicle Dealers	+14.6	+3.3	-8.0	+22.2	+17.0

*Includes classifications other than those listed.

Wholesale Trade—March trends in business of Seventh district wholesale houses were generally unfavorable. In fact, aggregate sales of all groups reporting to the Department of Commerce failed to show an increase over a year earlier for the first month since December 1938; experience

WHOLESALE TRADE IN MARCH 1940

Commodity	Per Cent Change from Same Month Last Year			
	Net Sales	Stocks	Accounts Outstanding	Collections
Drugs and Drug Sundries	-7.5	-3.8	+2.8	-3.4
Electrical Goods	+5.3	+15.1	+23.6	+22.7
Groceries	-4.6	+8.4	-1.3	-2.5
Hardware	+8.3	+21.5	+15.3	+19.2
Meats and Meat Products	-0.9	-1.3	+9.1	-4.4
Paper and Its Products	+3.4	+1.9	+0.4	-0.1
Tobacco and Its Products	+9.8	+6.6	+7.3	+11.8
Miscellaneous	-2.5	+5.0	+4.8	+3.6

Data furnished by Bureau of the Census, United States Department of Commerce.

varied, however, among the various lines. Although dollar volumes sold usually record a rather marked expansion between February and March, they increased only 6 per cent in the total this March, the major gain being in the hardware trade. An important group to register a decline from February was electrical goods with a 2 per cent recession in sales. Little change took place during March in total stocks of reporting wholesale groups, but they exceeded those on March 31 last year by 10 per cent.

The Agricultural Situation

A deficiency in subsoil moisture and backwardness due to the cold spring season continued to characterize Seventh district agriculture during the first half of April. Recent precipitation restored surface moisture and rendered some benefit to the subsoil; but snow, rain, and low temperatures held farm work considerably behind normal schedule. In mid-April seeding of small grains was nearing completion in the southern part of the district but had only begun in the central and northern areas. Plowing and disking for corn was being resumed after having come practically to a standstill during the early part of April. Winter wheat was in only fair to good condition, with the crop showing rather patchy stands in some areas; earliest seeded oats in Iowa had been nipped by late frosts to such an extent that considerable re-seeding was almost certain. Fall seedings of clover, alfalfa, and grass came through the winter in below normal condition and all plant growth has been backward. The outlook for peaches in the Seventh district is none too promising; spring frosts killed many of the buds in southern areas.

Grain Marketing—With continued prospects for a light winter wheat crop this year and the sudden intensification of war activity in Europe, grain prices at Chicago have risen considerably over early March levels. By April 18 the futures price for wheat had advanced to the highest in about 21½ years, passing the earlier peak reached after the outbreak of war last September. There is a record world carry-over of wheat this year, but it has been pointed out that the 1940 world crop is expected to be lower than the heavy 1938 or 1939 yields. The Department of Agriculture revised its estimate of the United States 1940 winter wheat crop upwards slightly to 426 million bushels as of April 1. A crop of this size would be the lowest since 1933 and about one fourth under last year's or normal production. Much needed rain fell in early April over the drought-stricken winter wheat areas, but this was followed by unusually cold weather.

Given this prospective winter wheat crop, together with average yields on the intended spring wheat acreage, 1940 production would total about 625 million bushels and 1940-41 supplies around 925 million bushels. A normal domestic disappearance of about 660 million bushels would reduce the record carry-over next year. It is expected that 1940-41 wheat exports will be small; domestic prices have continued high in relation to world prices for the grain.

Corn prices continued generally firm in March and showed considerable strength in April, cash quotations at Chicago advancing to above 65 cents by the fourth week of April. The higher level of corn prices this year as compared with 1939 reflects a number of factors, among them being an increased number of livestock on farms, somewhat improved business activity, and a greater number of farmers eligible for loans. Strength in the wheat market this year also has been a factor.

Stocks of corn on farms as of April 1 were estimated at 1,286 million bushels. These were the largest April 1 stocks

on record, and for the country as a whole represented about 55 per cent of last year's crop. In corn-belt States farm stocks were unusually large; in Iowa 385 million bushels, or 80 per cent of the 1939 crop, were still on farms. However, there was indicated a much better than average disappearance of corn from farms over the past quarter. Furthermore, a larger number of eligible farmers, as well as very unfavorable feeding ratios, has stimulated participation in the loan program this year; loans on the 1939 crop reported through April 17 amounted to over 300 million bushels, making an estimated total of about 550 million bushels of corn under seal or held by the Government.

Corn acreage for 1940, based on intention-to-plant figures, will be 87.8 million acres, about 4 per cent less than last year. Estimates of production, based on normal with some allowance for the effect of hybrid seed, would indicate a crop of about 2,400 million bushels. This assumes a yield somewhat below the past three years, which were probably better than average; winter precipitation has been below normal over most of the corn belt, and although summer weather is the major determining factor in corn yields, deficiency in subsoil moisture creates an additional hazard. A prospective crop of this size, which must be emphasized as purely an estimate, would be somewhat lower than normal domestic disappearance plus exports. This would tend to reduce somewhat during the next marketing year the record carry-over which is in prospect for October 1.

MOVEMENT OF GRAIN AT INTERIOR PRIMARY MARKETS IN THE UNITED STATES (In thousands of bushels)

	Mar. 1940	Feb. 1940	Mar. 1939	Mar. 1930-1939 Avg.
Wheat:				
Receipts.....	21,984	11,928	13,755	12,918
Shipments.....	8,639	7,426	11,081	10,227
Corn:				
Receipts.....	11,923	13,259	12,939	14,291
Shipments.....	6,029	7,630	8,658	8,628
Oats:				
Receipts.....	4,781	4,840	5,710	5,347
Shipments.....	4,450	4,337	6,402	6,448

Livestock and Meat Packing—Marketings of hogs have continued in unusually heavy volume, but receipts of cattle and lambs have been lower than last year. Marked recovery, of as much as one dollar per hundredweight, was shown in hog prices after the first week in April, at which time they had reached the lowest level since midsummer 1934.

LIVESTOCK SLAUGHTER (In thousands)

	Cattle	Hogs	Lambs and Sheep	Calves
Yards in Seventh District,				
March 1940.....	169	691	213	74
March 1939.....	191	501	300	92
Federally Inspected Slaughter, United States:				
March 1940.....	721	3,981	1,266	440
February 1940.....	715	4,277	1,313	378
March 1939.....	774	3,229	1,473	478

AVERAGE PRICES OF LIVESTOCK (Per hundred pounds at Chicago)

	Week Ended April 20, 1940	March 1940	Months of February 1940	March 1939
Native Beef Steers (average).....	\$ 9.55	\$ 9.30	\$ 9.15	\$10.40
Fat Cows and Heifers.....	8.05	7.70	7.55	8.30
Calves.....	10.00	10.00	10.00	9.75
Hogs (bulk of sales).....	5.50	5.10	5.15	7.45
Lambs.....	10.30	10.10	9.40	9.25
Stocker and Feeder Cattle.....	8.95	8.40	8.45	9.05

For the first time since last October, sales in the meat-packing industry came nearly into balance with current production, as they moved to higher levels in March. Slaughter in both March and April continued substantially ahead of

the corresponding volumes last year. Prices of most hog products sagged further during March and there was only a slight advance in beef, lamb, veal, and a few miscellaneous pork cuts. Over the first half of April, however, prices of practically all packing-house commodities, as well as live-stock, advanced considerably, following F.S.C.C. support in the lard market and the German occupation of Denmark.

MEAT PACKING—UNITED STATES

	Feb. 1940	Mar. 1939	1930-1939 Avg.
Tonnage produced.....	-3.7	+ 9.6	+17.7
Tonnage sold.....	+5.8	+ 6.3	+12.5
Dollar sales.....	+2.0	- 0.1	+11.2
Inventories.....	+0.7	+45.1	+19.8

Shipments of packing-house products for export were in small volume during March with only negligible quantities moving to the United Kingdom and with European neutrals buying even more sparingly than in February. Furthermore, shipments to Canada were below the quota allowable. A small volume of war orders moved to the Allies. Trade with Porto Rico, Cuba, and other Latin American countries was somewhat better than in February, though continuing only sufficient for consumption requirements. A few sales were made to the United Kingdom but actual shipment awaited the granting of import licenses. Normally the United Kingdom receives about half of its import requirements of pork products from Denmark. It is felt that notwithstanding present stocks in England, this demand for upwards of 400,000,000 pounds of hog meats annually will reach the Dominions, but that the United States is likely to derive indirect benefits through an eventual liberalization of quotas.

American packers have little if any consignment stocks abroad at the present time.

MONTHLY BUSINESS INDEXES

Data refer to Seventh district and are not adjusted for seasonal variation unless otherwise indicated.
1923-1925 average = 100

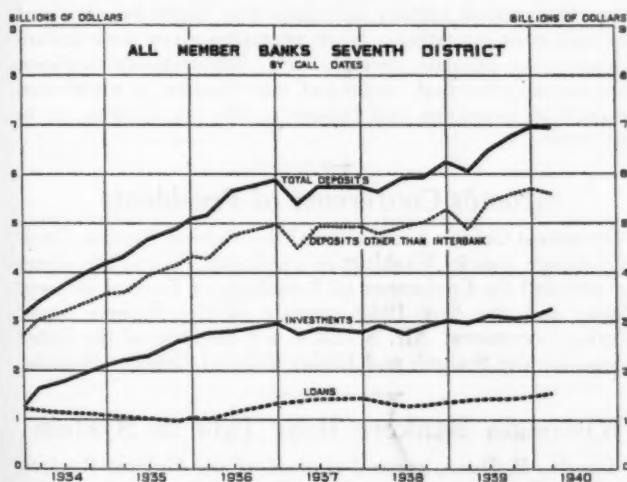
	Mar. 1940	Feb. 1940	Jan. 1940	Mar. 1939	Feb. 1939	Jan. 1939
Manufacturing Industries:						
Employment.....	92	92	93	83	83	82
Payrolls.....	97	96	97	81	80	79
Pig Iron Production:						
Illinois and Indiana.....	98	115	136	85	76	75
Automobile Production—(U. S.):						
Passenger Cars.....	120	115	124	102	83	96
Trucks.....	188	176	184	192	160	161
Casting Foundries Shipments:						
Steel—In Dollars.....	76	93	98	41	39	38
In Tons.....	65	87	94	32	31	33
Malleable—In Dollars.....	59	67	73	61	47	47
In Tons.....	73	85	92	79	63	60
Stores and Furnaces:						
Shipments.....	136	119	104	130	96	70
Furniture Manufacturing:						
Orders in Dollars.....	65	65	88	64	63	80
Shipments in Dollars.....	76	70	58	76	60	45
Building Contracts Awarded:						
Residential.....	67	39	31	62	35	41
Total.....	64	47	36	64	56	53
Meat Packing—(U. S.):						
Production.....	98	102	125	90	78	101
Sales Tonnage.....	98	92	110	92	79	91
Sales in Dollars.....	83	83	90	85	85	89
Department Store Net Sales:						
Chicago.....	85	71	74	89	64	66
Detroit.....	105	84	80	102	74	74
Indianapolis.....	116	83	89	105	75	83
Milwaukee.....	95	73	78	97	68	74
Other Cities.....	87	69	67	83	63	64
Seventh District—Unadjusted.....	92	74	75	92	67	69
Adjusted.....	94	92	94	98	84	86

Credit and Finance

Member Banks—Preliminary data as of March 26 indicate a slightly lower level of total deposits for all Seventh district member banks than at the end of 1939. Closer

analysis reveals, however, that net increases were recorded for all except Chicago banks. In that city a decline of about 200 million dollars in deposits other than inter-bank sufficed to more than offset a rise in bankers' balances at Chicago and generally higher levels of total deposits elsewhere throughout the district. The accompanying chart reveals that a generally upward trend in bank deposits at call dates apparently has been interrupted in past years when the call date is late in March. The explanation lies in the annual exodus of funds from Chicago at this time of the year to avoid the Illinois personal property tax on bank deposits levied on April 1 holdings. Weekly data for the large banks reveal this to be quite a temporary situation; deposits are transferred out of the city and then returned after the tax date, causing a brief decline of considerable magnitude in deposit figures. The quarterly call report data for all members is thus distorted by a purely local and temporary situation.

Both loans and investments of district member banks showed increases during the first quarter of the year. In the case of loans, the country banks, primarily, and the banks in large cities other than Chicago, to a lesser extent, were responsible for the gain, as loans of Chicago banks recorded practically no change over this period. The reverse situation prevails regarding bank investments, as only the Chicago banks materially increased their portfolios. Security holdings of country member banks actually declined about 2 per cent in the first three months of 1940.



Selected items of condition by call dates from December 30, 1933, through March 20, 1940.

Member Bank Reserves—Seventh district member bank reserves and related items were chiefly influenced between March 20 and April 17 by developments growing out of the Illinois personal property tax, which is assessed as of April 1. In the last two business days of March, depositors in the Chicago head-office territory transferred about 73 million dollars to other districts, largely motivated by desire to avoid the tax. In addition, substantial amounts probably moved out of Illinois into adjacent States without leaving the Seventh district. Another method widely utilized to avoid the tax is investment in 91-day tax-exempt Treasury bills. Nearly 500 millions of these bills out of a total of about 1,300 millions issued by the Treasury in the first three months of the year were absorbed by Seventh district investors. All bore maturity dates after April 1. In comparison it is noted that Seventh district takings of similar

Selected Seventh District Banking Data

FEDERAL RESERVE BANK OF CHICAGO, SELECTED ITEMS OF CONDITION

	(Amounts in thousands)		
	April 17, 1940	Mar. 20, 1940	April 19, 1939
Total bills and securities.....	\$270,509	\$+3,156	\$-17,251
Bills discounted.....	197	+2	+93
Bills bought.....	0	0	-71
U. S. Government securities direct and guaranteed:			
Bills.....	0	0	-53,395
Notes.....	123,590	+1,434	-8,115
Bonds.....	146,385	+1,719	+44,358
Total Government securities.....	269,975	+3,153	-17,152
Total reserves.....	2,567,721	+105,318	+398,401
Member bank reserve deposits.....	1,590,182	+137,894	+202,631
All other deposits.....	130,214	-40,321	-7,494
Federal Reserve notes in circulation.....	1,084,200	+10,085	+96,633
Ratio of total reserves to deposit and Federal Reserve note liability combined.....	91.5%	+0.2*	+2.0*

*Number of Points.

CONDITION OF REPORTING MEMBER BANKS SEVENTH DISTRICT

	(Amounts in millions)		
	April 17, 1940	Mar. 20, 1940	Change from April 19, 1939
ASSETS			
Loans and investments—total	\$3,369	\$-10	\$+327
Loans—total	936	+23	+75
Commercial, industrial, and agricultural loans	562	+24	+54
Open-market paper	39	+2	+11
Loans to brokers and dealers in securities	35	0	-4
Other loans for purchasing or carrying securities	75	+3	-2
Real estate loans	114	-1	+15
Loans to banks	0	0	-3
Other loans	111	0	0
U. S. Treasury bills	300	-54	+224
U. S. Treasury notes	290	+8	-82
U. S. Treasury bonds	1,047	-19	+61
Obligations fully guaranteed by U. S. Government	276	+14	+23
Other securities	520	+13	+26
LIABILITIES			
Demand deposits—adjusted*	2,609	+101	+324
Time deposits	964	+5	+65
Borrowings	0	0	0

*The annual velocity of demand deposits (unadjusted) in the four weeks ended April 17 was 22.93 times, as compared with 20.56 times in the preceding five weeks and, with 23.13 times in the corresponding period of 1939.

BANK DEBITS, SEVENTH DISTRICT

	(Amounts in millions)		
	March 1940	Per Cent Change from March 1939	Per Cent Change from First Three Months of 1939
Chicago.....	\$3,247	+ 9.1	+14.3
Des Moines.....	105	+ 2.9	+ 0.3
Detroit.....	1,001	+14.1	+18.1
Fort Wayne.....	31	+ 5.5	+10.7
Grand Rapids.....	57	+12.3	+20.3
Indianapolis.....	209	+ 9.0	+12.7
Milwaukee.....	289	+ 4.6	+ 8.2
Peoria.....	50	+ 9.3	+12.5
South Bend.....	40	+10.3	+20.2
32 smaller cities.....	521	+ 8.9	+13.1
Total 41 cities.....	5,659	+ 9.6	+14.3

TRANSIT OPERATIONS OF THE FEDERAL RESERVE BANK OF CHICAGO AND DETROIT BRANCH

(Exclusive of Treasury checks and of non-transit items drawn on own bank)

	March 1940	March 1939
Total country and city check clearings:		
Pieces.....	12,641,644	12,668,858
Amount.....	\$2,474,438,021	\$2,237,150,598
Daily average clearings:		
Total items cleared—		
Pieces.....	486,217	469,217
Amount.....	\$95,170,693	\$82,857,430
Items drawn on Chicago—		
Pieces.....	84,466	78,208
Amount.....	\$49,747,000	\$44,086,000
Items drawn on Detroit—		
Pieces.....	22,687	19,845
Amount.....	\$9,537,255	\$7,974,677

bills during the last quarter of 1939 amounted to only 110 millions out of a total of about 1,450 millions issued during the period. Redemptions since April 1 have run ahead of new purchases in this district. This factor, together with the return of some of the funds previously transferred elsewhere, had an augmenting effect on member bank reserves which, having fallen from a record high of 1,765 millions last December to 1,452 millions in March, proceeded to climb to 1,590 millions by April 17. This upward trend is expected to continue for the next several weeks, as additional Treasury bills held in the district mature and are redeemed, and as more commercial and financial funds return to Chicago.

Bond Market—The same general trends which have been apparent in the bond market for the past several months continued on the whole through March and the first weeks of April. Governments moved slowly higher on small volume. Trading in corporate and municipal liens was of modest proportions due to lack of substantial offerings, but distribution was completed of a number of blocks of bonds which had moved relatively slowly on original offering. In general, the various price averages advanced through late March and into the first week of April, but with the invasion of Norway some confusion developed in the Government bond market with losses up to three-fourths of a point in long bonds which were somewhat extended in subsequent trading. The selling at no time appeared urgent, however, and the decline in prices was probably attributable more to a lack of dealer confidence than to any other cause. Such offerings as appeared were well taken on a scale-down, and it was the general opinion that there was sufficient buying power under the market to cushion any probable decline in the absence of still more unfavorable and unexpected news from abroad.

The high-grade corporate market was less adversely affected, and it is noteworthy that the Inland Steel Company's offering of low coupon bonds on the second day after the occupation of Norway was quickly and easily placed and maintained a premium over the original offering price. While most medium-grade issues were irregularly lower, a few speculative issues advanced, particularly those convertible into stocks of companies whose sales should be augmented by more intense warfare or whose competition is lessened by events abroad.

Short-term securities have continued to sell at progressively lower yields, and returns amounting to small fractions of one per cent have become quite common for the early maturities of serial municipal issues.

New financing has been relatively restricted. March totals of corporate and municipal long-term issues aggregated about the same as in January, or to roughly half the February totals. The level for the first quarter of 1940 was about 35 per cent above the comparable 1939 period. In recent weeks there has been a fair number of issues of moderate size and varying quality, and investor interest in such offerings has been generally satisfactory from the underwriter's point of view. Additional companies appear to be contemplating re-refundings of issues put out in recent years. In addition to the Inland Steel Company issue, Texas Corporation and United States Steel Corporation among others are reported to have under consideration financing to enter registration in late April or early May. One of these projected offerings contemplates the refunding of a 3¼ per cent coupon issue sold in the last two years.

Current Events

Three More Banks Join System

Announcement of the admission during March of three additional banks in the Seventh district to the Federal Reserve System has been made.

The Pendleton Banking Co. of Pendleton, Indiana, with total deposits of approximately \$750,000, was admitted to membership on March 26. W. F. Morris is president of the bank.

The State of Michigan furnished two new member banks in March. They are The Morrice State Bank, of Morrice, and The State Bank of Caledonia, Caledonia, Michigan. G. D. Houghton is president of the Caledonia institution which has total deposits of about \$420,000. The Morrice State Bank, of which Luceine Scribner is president, has total deposits of around \$135,000.

Addresses Bank Auditors

Recent talks were made before the Bank Auditors Conferences in Elkhart and Indianapolis, Indiana, by William H. A. Johnson, chief trust examiner for the Seventh Federal Reserve district, on the subject "Suggestions for Personal Trust Auditing." Mr. Johnson called attention to the fact that most trust auditing was designed to prevent peculations and that when auditors go into trust departments they frequently overlook certain liabilities that might be sustained through trust operations. Some examples given were failure properly to allocate receipts and disbursements between income and principal, neglect of amortization of premiums, neglect of insurance and failure to file tax returns, or to pay taxes.

Attends Conference of Presidents

President George J. Schaller of the Federal Reserve Bank of Chicago was in Washington on March 19 and 20 where he attended the Conference of Presidents of Federal Reserve Banks and the first 1940 meeting of the Federal Open Market Committee. Mr. Schaller is a member of the latter group for the Seventh and Eighth Federal Reserve districts.

Wisconsin Bankers Hear Talk on System

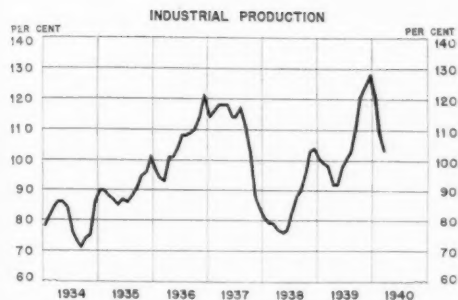
Charles B. Dunn, general counsel of the Federal Reserve Bank of Chicago, spoke on "The Federal Reserve System—Its Organization and Functions" at a banquet of the Green County Bankers Association on April 18 in Monroe, Wisconsin. Mr. Dunn pointed out that emphasis placed on good management and recent bank legislation have brought the banks of the nation into an era of safer and sounder operation.

Bank Police Tournament Winners

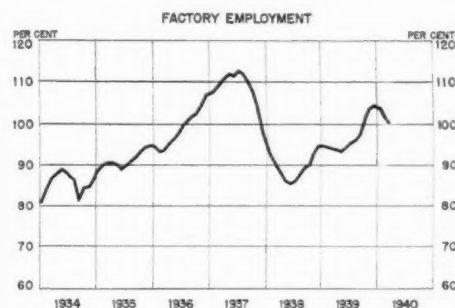
Teams composed of police of the Federal Reserve Bank of Chicago won two out of three matches at the semi-annual pistol tournament sponsored by the bank and held on April 11 and 12. The bank's No. One team won first place among class A teams with a score of 1123 out of a possible 1200. Third place was won by the bank's No. Two team with a score of 1094. Frank Kent, Federal Reserve policeman, established the highest score in the individual matches with 294 bull's-eyes out of a possible 300.

National Summary of Business Conditions

(By the Board of Governors of the Federal Reserve System)



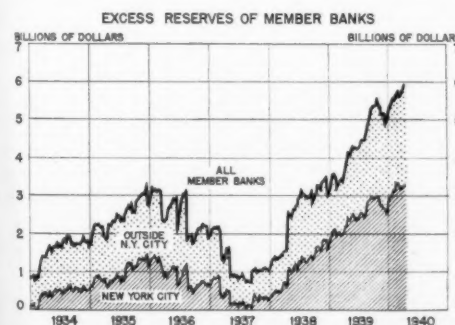
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to March 1940.



Index of number employed, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to March 1940.



U. S. Department of Commerce estimates of the amount of income payments to individuals, adjusted for seasonal variation. By months, January 1934 to March 1940.



Wednesday figures partly estimated, January 3, 1934, to April 10, 1940.

INDUSTRIAL activity continued to decline during March but at a somewhat slower rate than in the preceding two months, and in the first half of April there was little further decrease. Wholesale prices of basic commodities decreased somewhat in the latter half of March but recovered by the middle of April. Distribution of commodities to domestic consumers continued in large volume, and exports were at the high levels reached last December.

Production—The Board's index of industrial production, which is adjusted for usual seasonal variations and for the number of working days, was 103 in March compared with 109 in February. The decline reflected chiefly a further reduction in output of steel and considerable decreases in activity at cotton and woolen textile mills.

Steel ingot production declined from an average of 69 per cent of capacity in February to an average of 64 per cent in March. In the first half of April output was at around 61 per cent of capacity. Automobile production in March and the first half of April was maintained at the high rate prevailing during January and February but did not show the increase customary at this season. Retail sales of automobiles continued in large volume, and dealers' stocks of new cars declined somewhat from the high level reached earlier. In the machinery industries activity showed some decline from the high rate of other recent months, while at aircraft factories and shipyards activity continued at peak levels. Output of lumber and plate glass advanced seasonally in March.

In the woolen textile industry, where activity had been declining from the high level reached last November, there was a further sharp reduction in March. Activity at cotton textile mills also declined considerably but remained at a somewhat higher level than prevailed a year ago. Shoe production likewise declined considerably in March. At silk mills activity remained at an exceptionally low level, while rayon production was large.

Mineral production was maintained in large volume in March. There was some further reduction in output of bituminous coal, but output of anthracite increased, following a sharp decline in February. Crude petroleum production continued at record levels.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, increased considerably in March, as is usual at this season. The increase was principally in awards for private work, which in March approximately equalled those in the corresponding period last year. Public awards increased somewhat, following declines in January and February, but were in smaller volume than a year ago. Private residential building rose by about the usual seasonal amount.

Distribution—Sales of general merchandise at department and variety stores and by mail-order houses increased by about the usual seasonal amount from February to March, with allowance for the earlier date of Easter this year. In the first week of April sales at department stores were at a higher level than in March.

Freight-car loadings showed little change from February to March, although a rise is usual between these months. Shipments of miscellaneous freight showed considerably less than the usual seasonal increase, and there was some further decline in loadings of coal.

Foreign Trade—Exports of United States merchandise in March continued near the high level reached last December. Agricultural exports, principally cotton, decreased from February to March, while there were substantial increases in shipments of commercial vehicles and in metal working, agricultural, and other types of machinery.

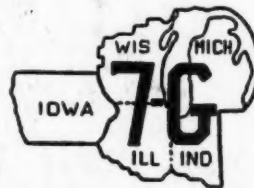
During March, the country's monetary gold stock increased by \$256,000,000. In the first two weeks of April the rate of gold inflow was accelerated, acquisitions in this period amounting to \$145,000,000.

Commodity Prices—Prices of a number of basic agricultural and industrial commodities, which had declined in the latter part of March, advanced during the second week in April. Prices of certain finished steel products, on the other hand, were reduced, and prices of most other commodities showed little change.

Government Security Market—Prices of Treasury bonds moved sharply upward during March and the first few days of April to a new high level since last summer. On April 9, however, on receipt of news of the expansion of war activities in Europe, a decline of about one point occurred in long-term bonds. Subsequently the market recovered part of the loss. The yield on the 1960-1965 Treasury bonds was 2.31 per cent on April 15, compared with a low of 2.26 per cent on April 2.

Bank Credit—Reflecting continued heavy gold imports, excess reserves of member banks increased during the four weeks ending April 10 to a record high level of \$5,950,000,000. Total loans and investments at banks in 101 leading cities, which had shown little net change during March, increased in the first two weeks of April, reflecting purchases of United States Government obligations.

SEVENTH FEDERAL



RESERVE DISTRICT



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